MEMORANDUM FOR ALMAJCOM/CE 1 Oct 98
HQ USAFA/CE

FROM: HQ USAF/ILE
1260 Air Force Pentagon
Washington, DC 20330-1260

SUBJECT: Utilities Privatization Policy and Guidance Manual

Attached for your use is the *Air Force Utilities Privatization Policy and Guidance Manual*. This manual provides the procedures required to privatize Air Force utility systems. We have incorporated the valuable lessons we've obtained through our on-going pilot studies and have streamlined our process to take advantage of new legislative authorities.

We recently funded the Air Force's initial privatization projects to include 28 systems in our FY98 program and an additional 25 systems in Texas as part of a regional demonstration project funded by the Defense Energy Support Center. HQ AFCESA will support MAJCOMs in analyzing each installation. HQ AFCEE will further support MAJCOMs in conducting environmental baseline surveys.

The Deputy Secretary of Defense recently revised the DoD deadline of 1 Jan 00 for privatizing all utility systems extending completion to 30 Sep 03. With this extension, however, he mandated we must have requests for proposals on all systems completed NLT 30 Sep 01. In addition, he requested we include all systems at Air National Guard installations doubling the number of systems in our original plan. Our total program now includes 463 systems available for privatization. To meet the Deputy Secretary of Defense's mandate, we will be dramatically accelerating our original Air Force-approved eight-year plan for privatization. Pending availability of funds, we anticipate executing analysis of all these systems over the next two fiscal years. Details of this revised execution plan will be forwarded to you NLT 1 Jan 99.

If you have questions, our POC for utilities privatization matters is Major Jeff Vinger, AF/ILEIO, DSN664-4017, jeffery.vinger@af.pentagon.mil.

~ S i g n e d ~

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Acting Deputy Civil Engineer
DCS/Installations & Logistics

Attachment:
Policy and Guidance Manual

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Acronyms

AFCEE	Air Force Center for Environmental Excellence
AFCESA	Air Force Civil Engineer Support Agency
AFFARS	Air Force Federal Acquisition Regulations Supplement
AFI	Air Force Instruction
AFLMA	Air Force Logistics Management Agency
AFLSA	Air Force Legal Services Agency
AFM	Air Force Manual
AFREA	Air Force Real Estate Agency
BRAC	Base Realignment and Closure
CATEX	categorical exclusion
CBD	Commerce Business Daily
DFARS	Defense Federal Acquisition Regulations Supplement
DOD	Department of Defense
DRI	Defense Reform Initiative
EBS	Environmental Baseline Survey
EIAP	Environmental Impact Analysis Process
EIS	environmental impact statement
ESPC	Energy Savings Performance Contract
FAR	Federal Acquisition Regulation
FM	Financial Manager
FYDP	Five-Year Defense Plan
HQ	Headquarters
IPT	Integrated Process Team
KGAL	thousand gallon
MAJCOM	Major Command
MILCON	Military Construction
MWH	megawatt hour

NAVFAC	Naval Facilities Engineering Command
NEPA	National Environmental Policy Act
NPV	net present value
O&M	operations and maintenance
OMB	Office of Management and Budget
PMP	Program Management Plan
POM	Program Objective Memorandum
QA/QC	Quality Assurance/Quality Control
RCN	replacement cost new
RCNLD	replacement cost new less depreciation
RFI	Request for Interest
RFP	Request for Proposal
SAF	Secretary of the Air Force
SAF/AQ	Assistant Secretary of the Air Force, Acquisition
SAF/FMB	Deputy Assistant Secretary of the Air Force, Budget
SAF/FMC	Deputy Assistant Secretary of the Air Force, Cost and Economics
SAF/GCN	Deputy General Counsel for Installations and Environment, Department of the Air Force
SAF/LL	Assistant Secretary of the Air Force, Legislative Liaison
SAF/MII	Deputy Assistant Secretary of the Air Force, Installations
SAF/PA	Deputy Secretary of the Air Force, Public Affairs
SOQ	Statement of Qualifications
SSA	Source Selection Authority
SSET	Source Selection Evaluation Team
SSP	Source Selection Plan
USACE	United States Army Corps of Engineers
USAF	United States Air Force
USAF/DPP	Division of Personnel Programs, Education, and Training; Deputy Chief of Staff, Personnel
USAF/ILE	Office of the Civil Engineer
USAF/ILEC	Engineering Division, Office of the Civil Engineer

USAF/ILEI	Competitive Sourcing and Privatization Division, Office of the Civil Engineer
USAF/ILEO	Operations Division, Office of the Civil Engineer
USAF/ILEP	Programs Division, Office of the Civil Engineer
USAF/ILEV	Environmental Division, Office of the Civil Engineer
USC	United States Code

Executive Summary

This Utilities Privatization Policy and Guidance Manual *provides procedures to implement the DRI to privatize DOD utility systems.*

This *Utilities Privatization Policy and Guidance Manual* was prepared by Headquarters, United States Air Force, Deputy Chief of Staff for Installations and Logistics, Civil Engineer Directorate, Competitive Sourcing and Privatization Division (HQ USAF/ILEI).

This policy and guidance identifies major roles and responsibilities, discusses legislative authority, and presents the processes required to privatize utility plants and systems in accordance with the Defense Reform Initiative (DRI) dated November 1997. The DRI required that all Department of Defense (DOD) utility systems (electric, water, wastewater, and natural gas) be privatized by 1 January 2000, except those needed for unique security reasons or when privatization is uneconomical.

Privatization is the process by which the U. S. Air Force will transfer to a utility company or other qualified entity the responsibilities for system ownership and the obligation to provide quality service to all installation facilities. The procedures outlined in this policy and guidance focus on executing privatization projects to meet the requirements of the DRI using the legislative authority of Title 10, §2688, Utility Systems Conveyance Authority, of the United States Code (10 USC §2688).

Once the Air Staff identifies utility systems eligible for privatization, the Installation/Wing Commander is responsible for executing appropriate privatization projects. The Major Command (MAJCOM) will assist and facilitate the privatization process and interact with HQ USAF/ILEI on policy issues and the Deputy General Counsel for Installations and Environment, Department of the Air Force (SAF/GCN) on legal issues. Headquarters, Air Force Civil Engineer Support Agency (HQ AFCESA) and Headquarters, Air Force Center for Environmental Excellence (HQ AFCEE) will provide technical and contract support for performing the required analyses.

The utilities privatization process includes a preliminary screening process followed by a three-phase process, described below:

The utilities privatization process has three major phases.

- **The Preliminary Screening Process** is performed for all programmed utility systems to determine which systems are exempt from privatization for readiness or unique security reasons. Exemption decisions are made by the Secretary of the Air Force (SAF).

- **The Project Plan and Feasibility Analysis Phase** results in the Project Plan and Feasibility Analysis Report. This Feasibility Analysis Report includes a Preliminary Economic Analysis and determines whether responsive proposals for the purchase of the system are likely to be received.

- **The Comprehensive Analysis Phase** results in a Draft Comprehensive Analysis Report and Draft Request for Proposal (RFP). The Comprehensive Analysis Report includes analyses on real estate, environmental, transition, and planning issues affecting privatization. This phase also determines appropriate terms and conditions to be factored into preparing the Draft RFP.

- **The Final Feasibility, Approval, and Implementation Phase** results in an Approval Package submitted for SAF approval. This Approval Package includes the Final Comprehensive Analysis Report and the final revised proposal of the selected offeror. The Final Comprehensive Analysis Report includes a certified Economic Analysis and updates to the transition plans all based on the final revised proposal of the selected offeror.

Once each phase is completed, the resulting documents will be reviewed to determine whether to proceed to the next phase or exempt the utility system from privatization. Only the SAF can exempt a utility system from privatization.

1.0 Utilities Privatization Policy

Overview

Air Force vision: privatize utility systems where it makes economic sense and has no adverse impact on readiness or security.

This *Utilities Privatization Policy and Guidance* provides implementing policy and guidance for the Secretary of Defense's Defense Reform Initiative (DRI) decision to privatize electric, water, wastewater, and natural gas utility systems owned and operated by the Department of the Air Force. The objectives of the DRI (**Appendix A**) are to reduce long-term financial requirements to support these systems, thereby making scarce funds available for mission-critical requirements, such as force modernization, and to permit Air Force leadership to focus on core competencies and the global mission to achieve air and space superiority. Utility systems identified in Title 10, §2688, Utility System Conveyance Authority, of the United States Code (10 USC §2688), that are exempt from privatization under the DRI are those subject to readiness or unique security considerations or utility systems where privatization is determined to not be economical.

Utilities will be transferred under 10 USC §2688, Utility System Conveyance Authority.

Several Air Force goals must be achieved and maintained throughout the privatization process. The Air Force's basic goal is to transfer ownership of utility systems to obtain better economies. The transfer of utility system ownership and the responsibility to provide utility services must make good business sense and result in the Air Force purchase of utility services at a lower long-term cost. The privatized utility must also be as reliable as the current Air Force system. The Air Force will retain in-house responsibility for utilities systems that, in the view of the Secretary of the Air Force (SAF), are required for mission readiness.

Legislation passed as part of the Fiscal Year 1998 Defense Authorization Act, 10 USC §2688, provides the statutory authority for the privatization of Air Force utility systems. **Appendix B** provides a copy of this legislation.

This policy and guidance does not address leasing, competitive sourcing, or ESPC.

This policy and guidance does not address leasing or concessions, competitive sourcing (contracting out system operations and maintenance [O&M]), or energy savings performance contracts (ESPCs) (projects executed under 42 USC, §8287, Shared Energy Savings, involving private sector capital for energy savings projects). For competitive sourcing projects, attention is directed to the Office of Management and Budget (OMB) Circular A-76, Performance of Commercial Activities; the Air Force Logistics Management Agency (AFLMA) Outsourcing Guide for Contracting; and Air Force Manual (AFM) 38-208, Commercial Activities Program Procedures.

Application

This policy and guidance applies to all Air Force Installations, Major Commands (MAJCOMs), forward operating agencies, and direct-reporting units that currently operate and maintain government-owned utility systems.

Specific Guidance

HQ USAF/ILEI is the focal point for privatization initiatives.

The SAF has designated Headquarters, United States Air Force, Deputy Chief of Staff for Installations and Logistics, Civil Engineer Directorate, Competitive Sourcing and Privatization Division (HQ USAF/ILEI) as the focal point for all utilities privatization. HQ USAF/ILEI is tasked with managing privatization initiatives and implementing the following policy guidelines:

Mission and force readiness will not be jeopardized.

- The utilities privatization process outlined in this policy and guidance will be used for the privatization of all Air Force utility plants and systems. Mission capability and force readiness cannot, and will not, be jeopardized as part of the process.

- All Air Force utility systems will be considered for privatization. However, to ensure that operational impacts are not overlooked, a series of vulnerability assessments using operational risk management techniques are incorporated at the programmatic and base levels of the program to identify privatization exemptions for the following reasons:

  -- Readiness (Air Staff screen)

- -- Unique security requirements (Air Staff and MAJCOMS)

- The authority to proceed with privatization of a particular utility system will be delegated to the maximum extent possible; however, final approval by the SAF is required before Congressional notification for a particular project. A decision not to pursue a specific project that has passed the readiness and security revalidation process must be reviewed and approved by the SAF.

- Only two alternatives for privatizing utility systems are considered in this policy and guidance: the status quo and privatization. Privatization is selling or transferring utility system assets and, if appropriate, the underlying real estate to a utility or other qualified entity. No land will be sold under the authority of 10 USC §2688. If privatization is not feasible, other alternatives, such as competitive sourcing, might be considered; however, these alternatives are not addressed in this policy and guidance.

Maximize competition to assure best value.

- Full and open competition among all interested and qualified utilities and other entities is required. Full competition will help ensure the best value for the Air Force.

- All privatization projects will be supported by an economic analysis based on accepted life-cycle costing procedures that demonstrate the long-term economic benefit and reduced long-term costs of the sale. In the economic analysis, all costs must be analyzed, including hidden costs such as indirect military and civilian staffing, taxes, and insurance. The Economic Analysis must adhere to OMB Circular A-94, Guidelines and Discount Rates for Benefit Cost Analysis of Federal Programs; AFM 65-506, Financial Management and Economic Analysis; and any supplemental guidance from the SAF or Air Staff.

- Real estate and planning implications of privatization alternatives must also be considered, including on- and off-base land use, access, security, traffic control, encroachment, and environmental effects. The potential industry and local community interest in the privatization project should also be identified and evaluated.

OMB Circular A-76, Performance of Commercial Activities, does not apply to privatization.

- OMB Circular A-76 requirements and procedures do not apply to utilities privatization under 10 USC §2688.

- Installations will keep the local community informed of the potential for utility system privatization and investigate whether local utility service providers can meet the Air Force requirements. Privatization projects may include evaluating the purchase of services from off base or using government property to develop needed utility infrastructure along with sale of the existing system.

- The following criteria will be considered in proceeding with privatization:

Projects must make good business sense.

  -- Economic viability and market interest will be assessed preliminarily before the Request for Proposal (RFP) is developed.

  -- Offerors and their financial track records will be thoroughly investigated before any commitments are made.

  -- Air Staff will consider long-term force structure impacts.

  -- RFPs will clearly state that the Air Force may decide not to award a contract or make a selection, and such a decision involves no liability to the Air Force.

- Privatization must not adversely affect force structure. The Air Staff/MAJCOMs will identify any utilities potentially affected by these criteria and remove them from further consideration for privatization.

Break-even or better life-cycle cost savings required for privatization.

10 USC §2688 requires privatization projects to be pursued only if the long-term benefit exceeds the long-term costs and long-term costs will be reduced. These calculations are based on a life-cycle analysis of "should" costs. OMB Circular A-94 allows for choosing, as between alternative offers, a more costly alternative if the benefits can be demonstrated to be greater. Thus, the selection process for privatization will be based on the "best value" of proposals first meeting the economic requirements of 10 USC §2688.

2.0 Roles and Responsibilities

Overview

Privatization is a corporate team effort.

Implementing utilities privatization will require a concerted effort of all concerned, from the installation where the feasibility will be assessed, to the SAF where each project will ultimately be approved. To meet the Air Force objectives for utilities privatization, it is important to understand the organizational roles and responsibilities necessary for successful implementation.

Installation/Wing Commanders

Installation/Wing Commanders have the lead.

Once a particular utility system is screened and determined not to have readiness or unique security impacts, installation commanders are responsible for initiating and guiding the project through the utilities privatization process. Specifically, the installations commander will be responsible for the following:

- Supporting the SAF with revalidating readiness impacts that might affect privatization
- Supporting the SAF with revalidating unique security requirements that might affect privatization
- Preparing the Project Plan
- Assessing the feasibility of utilities privatization using the process described in this policy and guidance
- Initiating and maintaining communications with the affected employees, unions, local community, local elected officials, regulators, and the MAJCOM, HQ USAF/ILEI, Headquarters, Air Force Civil Engineer Support Agency (HQ AFCESA), and Headquarters, Air Force Center for Environmental Excellence (HQ AFCEE)
- Completing the Environmental Impact Analysis Process (EIAP) (Air Force Instruction [AFI] 32-7061) to assess the environmental impacts of the project

- Preparing draft real estate documents, including legal descriptions and appraisals if appropriate
- Determining the need, if any, to prepare an environmental baseline survey (EBS), AFI 32-7066, Environmental Baseline Surveys in Real Estate Transactions
- Initiating and managing the acquisition process
- Awarding the resulting utility service contract and providing post-award project quality control, management, and contract administration
- Reviewing the Preliminary, Draft, and Final Economic Analyses
- Resolving policy issues with HQ USAF/ILEI
- Resolving legal issues through the MAJCOM/JA to Air Force Legal Services Agency (AFLSA)
- Establish installation privatization team members

Major Commands

MAJCOMs have the primary responsibility for developing the privatization program and providing support to installations in executing privatization projects. To support the privatization program, MAJCOMs will be responsible for the following:

MAJCOMs develop the privatization program.

- Assisting the Air Staff in identifying unique security requirements that will preclude privatization of particular utility systems
- Assisting installations in screening projects for privatization feasibility
- Supporting site visits, and developing and submitting project documents to HQ USAF/ILEI for review and approval
- Assisting in developing the RFP and source selection criteria
- Tracking the RFP, proposal, and source selection processes

- Identifying, programming, and budgeting utilities privatization support
- Establishing and directing a MAJCOM utilities privatization management team that includes professionals from contracting, real property, financial analysis, environmental, engineering, legal, and other specialties required for privatization analyses
- Assessing the mission impact of privatizing utility systems on a case-by-case basis
- Reviewing the Preliminary, Draft, and Final Economic Analyses

Deputy Chief of Staff for Installations and Logistics, Civil Engineer Directorate

Deputy Chief of Staff for Installations and Logistics, Civil Engineer Directorate (HQ USAF/ILE) is tasked with the overall management responsibility for utilities privatization initiatives. Privatization responsibilities include the following:

HQ USAF/ILE is the overall utilities privatization program manager.

- Developing policy for privatization projects
- Developing and maintaining the inventory of utility systems
- Along with the MAJCOMs, determining which utility systems have unique readiness or security requirements resulting in exemption from privatization
- Programming and budgeting for privatization program resources
- Reviewing the privatization projects initiation prior to submission to Deputy Assistant Secretary of the Air Force, Installations (SAF/MII) and for Congressional notification
- Coordinating and guiding privatization projects through Air Staff and SAF reviews

- Directing the preparation of information and status reports mandated by law and notifications of project initiation and awards to Congress

Civil Engineer Utilities Privatization Integrated Process Team

The Civil Engineer Utilities Privatization IPT is the executive steering group.

The Civil Engineer Utilities Privatization Integrated Process Team (IPT) is led by HQ USAF/ILEI and includes members with expertise in utility operations and construction program management. The Civil Engineer Utilities Privatization IPT is made up of representatives from Headquarters, United States Air Force and the Department of Air Force in the following divisions:

- Competitive Sourcing and Privatization (HQ USAF/ILEI)
- Engineering (HQ USAF/ILEC)
- Environmental (HQ USAF/ILEV)
- Operations (HQ USAF/ILEO)
- Programs (HQ USAF/ILEP)
- Personnel Programs, Education, and Training (HQ USAF/DPP)
- Air Force Civil Engineer Support Agency (HQ AFCESA)
- Air Force Center for Environmental Excellence (HQ AFCEE)
- Air Force Real Estate Agency (HQ AFREA)
- Budget and Cost (SAF/FMB and SAF/FMC)
- Acquisition (SAF/AQ)
- Installations (SAF/MII)
- Legal (SAF/GCN and AFLSA)
- Public Affairs (SAF/PA)

The Civil Engineer Utilities Privatization IPT was chartered to develop and maintain a program of private sector-financed projects, including the utilities privatization initiative described in this policy and

guidance. The IPT serves as the Air Force advocate for executing privatization projects. The Civil Engineer Utilities Privatization IPT is also responsible for developing and managing the overall privatization process. Specific tasks include the following:

- Developing implementation process guidelines
- Addressing program policy and guidance issues
- Defining criteria for identifying and integrating privatization projects
- Monitoring program and project progress and results using the utilities privatization authority
- Reporting program initiatives to the Air Force corporate board structure through the Air Force Competitive Sourcing and Privatization Panel and its Executive Steering Group

The Civil Engineer Utilities Privatization IPT also assists the MAJCOMs by validating project requirements, assisting in project submittal development, and supporting the integrated acquisition teams formed to solicit and evaluate proposals.

Headquarters, United States Air Force

Competitive Sourcing and Privatization Division, Office of the Civil Engineer

HQ USAF/ILEI manages the Air Force privatization program.

HQ USAF/ILEI manages and oversees the Air Force utilities privatization program. This role includes working with SAF/MII to implement privatization authority. HQ USAF/ILEI also leads the Civil Engineer Utilities Privatization IPT in developing and providing overall program policy guidance to the MAJCOMs. HQ USAF/ILEI is the Air Staff focal point for utilities privatization policy issues and projects.

HQ USAF/ILEI supports and guides the MAJCOMs, as necessary, throughout the process. This includes participating in installation site visits and reviewing project submittals, reports, project plans, and solicitation/acquisition documents. HQ USAF/ILEI also supports project approval briefings through SAF/MII and processes Congressional notification submittals.

HQ USAF/ILEC conducts corporate review.

Engineering Division, Office of the Civil Engineer

HQ USAF/ILEC conducts corporate reviews and coordinates policy for Military Construction (MILCON) level programming, design, and construction associated with privatization projects.

Environmental Division, Office of the Civil Engineer

HQ USAF/ILEV coordinates environmental policy regarding the implementation of utilities privatization projects.

Operations Division, Office of the Civil Engineer

HQ USAF/ILEO evaluates manpower issues.

HQ USAF/ILEO evaluates work force, manpower, and the operational readiness impacts of proposed privatization projects.

Programs Division, Office of the Civil Engineer

HQ USAF/ILEP is the advocate for HQ USAF/ILE Program Objective Memorandum (POM) initiatives for privatization.

Personnel Programs, Education, and Training, Directorate of Personnel

HQ USAF/DPP is responsible for entitlements due to employees and staff affected by privatization of a utility system.

Headquarters, Air Force Civil Engineer Support Agency

HQ AFCESA provides technical and specialized expertise in engineering, privatization, and contracting support matters.

HQ AFCESA provides technical engineering and privatization expertise and contracting support to HQ USAF/ILE, MAJCOMs, and installations. This support includes, but is not limited to, the following:

- Reviewing the revalidation for readiness and unique security requirements
- Outlining "road maps" for specific projects by developing Program Management Plans (PMPs) **(Appendix C)**
- Executing contract support for program requirements and project analyses
- Participating in installation site visits
- Providing technical guidance and assistance in preparing and reviewing technical reports, briefings,

and other program documentation

- Providing advice on utility rates and legal service
- Assisting negotiations of real estate and utility contracts

HQ AFCEE provides technical and contractual support for environmental matters.

Headquarters, Air Force Center for Environmental Excellence

HQ AFCEE provides technical and contractual support to HQ USAF/ILE for any required EBS and regulatory compliance requirements.

Headquarters, Air Force Real Estate Agency

HQ AFREA acquires, manages, and disposes of all Air Force-controlled real property. Specifically, HQ AFREA is responsible for the following:

HQ AFREA establishes real property policy and procedures.

- Obtaining necessary approvals from the SAF and Congress for all major land disposals
- Reviewing out-grants regarding the use of Air Force property (leases and easements)
- Overseeing title transfers, deed surveys, and property instruments for major transactions
- Surveying and disposing of excess land and real property improvements

In support of HQ AFREA, the United States Army Corps of Engineers (USACE) or the Naval Facilities Engineering Command (NAVFAC) can assist in the following:

USACE and NAVFAC can provide assistance to HQ AFREA.

- Preparing the legal survey of the property
- Preparing an appraisal of the property
- Assisting in drafting real estate documents

Department of the Air Force

Deputy Assistant Secretary of the Air Force, Budget

SAF/FMB issues budget policy.

SAF/FMB manages the finances of Air Force-level programs, supports formal OMB scoring negotiations, and provides the MAJCOMs with budget policy and guidance. Additionally, SAF/FMB supports the project execution process with the following responsibilities:

- Reviewing and approving programming documents

- Providing appropriate Congressional notifications

Deputy Assistant Secretary of the Air Force, Cost and Economics

SAF/FMC develops evaluation criteria.

SAF/FMC establishes Air Force policy and procedures for economic analyses related to privatization programs, including developing evaluation criteria for Air Force privatization alternatives. SAF/FMC reviews privatization project submittals to ensure compliance with economic analysis guidelines.

Assistant Secretary of the Air Force, Acquisitions

SAF/AQ is responsible for the following:

SAF/AQ coordinates real estate and contracting actions.

- Providing acquisition policy guidance for all privatization contracts governed by the Federal Acquisition Regulations (FAR)
- Processing any changes or deviations to the FAR concerning privatization
- Coordinating with HQ USAF/ILE on privatization policy, procedures, and projects that require both real estate and contracting actions

Deputy Assistant Secretary of the Air Force, Installations

SAF/MII approves policy and initiates Congressional reporting.

SAF/MII provides overarching utilities privatization policy guidance, approves and supports utilities privatization projects through the budget process, and initiates required Congressional notifications through SAF/FMB and Assistant Secretary of the Air Force, Legislative Liaison (SAF/LL). Specifically, SAF/MII is responsible for the following:

- Approving overall policy for privatization
- Designating the Source Selection Authority (SSA) for individual projects
- Approving the business arrangement, or "deal," before Congressional notification
- Approving real property arrangements before award

- Reviewing, approving, signing and forwarding project award notifications to the appropriate congressional authorization committees

- Ensuring that interim usage or the transfer of ownership of real property will not interfere with the objective of the Air Force or Department of Defense (DOD)

General Counsel

SAF/GCN will provide authoritative legal guidance on all legal issues.

3.0 Utilities Privatization Process

Overview

This policy and guidance was designed for use Air Force-wide.

This section outlines the steps necessary to develop and manage privatization projects from the initial screening of all candidate systems through closeout of all project commitments. It was designed to assist Installation/Wing Commanders and MAJCOM staffs through the process for privatizing designated utility systems Air Force-wide.

The utilities privatization process described herein is applicable to projects executed under the authority of 10 USC, §2688 (**Appendix B**). Privatization under this authority permits selling or transferring DOD utility systems when the SAF determines it to be in the best interest of the Government.

Technical guidance is available from HQ AFCESA.

Once candidate utility systems are identified, the Installation/Wing Commander is responsible for conducting the Feasibility Analysis and submitting a privatization request. Although supporting documentation should be prepared in accordance with this guide by the installation, assistance from the MAJCOM may be requested. Technical guidance is also available from HQ AFCESA, and HQ AFCEE can provide technical assistance on environmental matters. Questions of policy should be directed to HQ USAF/ILEI by way of the MAJCOM.

Establish a dedicated installation privatization team with command support.

Privatizing an installation utility system involves communicating and coordinating with other federal agencies, state and local governments, regulators, the local community, installation officials, unions, affected employees, the MAJCOM staff, the Air Staff, HQ AFCESA, and HQ AFCEE. Because many resources are required to privatize a utility system, it is of utmost importance to establish a dedicated team of installation experts with command support.

Communication should be established early and maintained throughout the process. Contact should be

maintained on-installation within the project team and with affected unions and installation employees; off-installation communication should also be maintained with the MAJCOM, Air Staff, HQ AFCESA, HQ AFCEE, and with the local community. The success of the initiative depends on active leadership and strong support at all levels.

The utilities privatization process can take about two years.

Because privatization involves a complex set of variables, the privatization process can take about two years. **Appendix D** is a time-phased representation (Gantt Chart) of the utilities privatization process. Allocating sufficient resources at the start, establishing effective communications, and following the process will allow projects to be delivered efficiently.

The privatization process proceeds through the following steps, which are more clearly defined in the remainder of this policy and guidance:

- Preliminary Screening of Programmed Utility Systems
- Phase I: Project Plan and Feasibility Analysis
- Phase II: Comprehensive Analysis
- Phase III: Final Feasibility, Approval, and Implementation

Preliminary Screening of Programmed Utility Systems

The preliminary screening identifies candidate utility systems.

The privatization process begins with a preliminary screening of programmed utility systems to identify privatization candidates. This preliminary screening includes the following:

- Revalidating that no adverse effects on mission readiness would exempt a utility system from privatization
- Revalidating that no unique security requirements would exempt a utility system from privatization

Phase I: Project Plan and Feasibility Analysis

Phase I validates the project.

Once candidate utility systems are revalidated, the first phase of the privatization process begins. Phase I validates the project and includes the following:

- Developing a Project Plan

- Conducting a Utility Requirements Assessment
- Conducting an Operational Impact and Risk Management Analysis
- Determining the impact of state and local regulation on the process, potential owner, and transfer
- Conducting an Industry Market Analysis
- Conducting a Preliminary Economic Analysis
    1. Establishing 25-year status quo cash flow
        - Renewal and replacement costs
        - New construction costs
        - Adjusted operating costs
    2. Establishing 25-year privatization cash flow
        - Estimated purchase price
        - Estimated utility service rates
    3. Performing a life-cycle cost analysis
        - Net present value (NPV) analysis on 25-year cash flows
- Preparing a Feasibility Analysis Report, which contains the analyses performed under Phase I and justifies continuing on to Phase II or eliminating the utility from further consideration
- Conducting reviews and implementing a "go/no-go" decision

Phase II: Comprehensive Analysis

Phase II defines the terms and conditions.

Once Phase I is approved by the MAJCOM, Phase II is initiated. Phase II includes the steps necessary to perform the Comprehensive Analysis, which defines the terms and conditions of the proposed privatization. Phase II also includes developing the Draft RFP. This phase includes the following:

- Reviewing the Project Plan and Feasibility Analysis Report from Phase I
- Conducting an EBS, if determined necessary, to assess the condition of the property

- Complying with the EIAP
- Developing draft real estate instruments
- Developing draft transition plans
- Preparing an Acquisition Plan
- Preparing a Source Selection Plan (SSP) and establishing the Source Selection Evaluation Team (SSET)
- Preparing the Draft RFP
- Preparing a Draft Comprehensive Analysis Report
- Conducting reviews and gaining approvals

Phase III: Final Feasibility, Approval, and Implementation

Phase III completes the process.

Following review and approval of Phase II plans, Phase III of the utilities privatization process completes the process. This final phase includes the following:

- Reviewing the Project Plan, Feasibility Analysis, and Comprehensive Analysis
- Finalizing the RFP
- Preparing and issuing the *Commerce Business Daily* (CBD) announcement for the project
- Issuing the RFP and conducting the site tour
- Conducting a Qualification Process (Step 1)
  - Identifying qualified firms
  - Requesting technical and cost proposals from qualified firms
- Conducting a Technical Evaluation Process (Step 2)
  - Receiving and evaluating technical and cost proposals
  - Holding discussions with offerors
  - Preparing final revised proposals by offerors
  - Reviewing final revised proposals
- Selecting the successful offeror

- Updating status quo costs developed during Phase I
- Preparing a Draft Economic Analysis
- Preparing the Certified Economic Analysis
- Finalizing transition plans
- Finalizing draft real estate instrument(s)
- Preparing and submitting the project Approval Package for SAF approval and Congressional notification
- Awarding the contract and implementing transition

Preliminary Screening of Programmed Utility Systems

As systems are funded, they will be revalidated to ensure no change in eligibility.

It is anticipated that utility systems initially identified as passing the DRI criteria for readiness and security impacts will be programmed for privatization analysis over the Five-Year Defense Plan (FYDP). As these systems are funded for analysis, they will be revalidated to ensure there has not been a change in eligibility during the interim period.

These Air Force programmatic level revalidations are illustrated in **Figure 3.1**.

FIGURE 3.1
Preliminary Screening of Programmed Utility Systems

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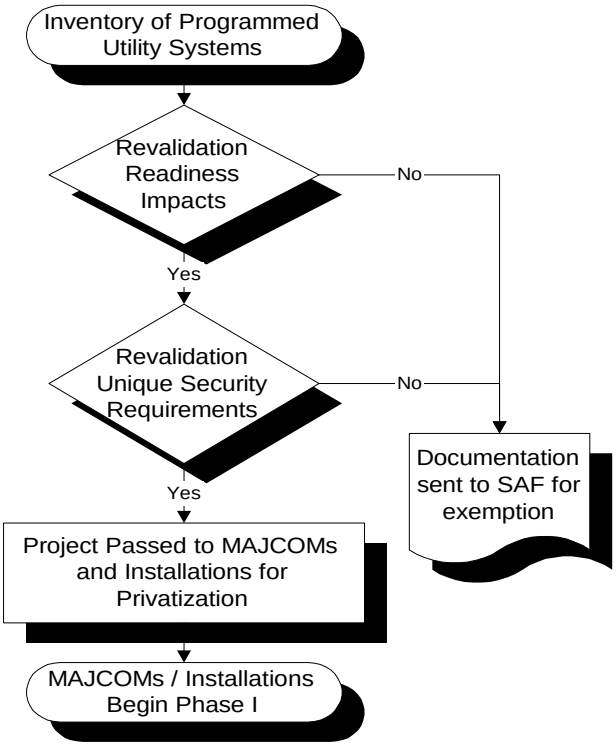


Figure 3.1 Preliminary Screening of all Utility Systems

Readiness Revalidation

Readiness revalidation is performed by the Air Staff for the SAF. This revalidation includes verifying that privatizing the utility system will have no adverse effect on staffing for contingency operations.

Unique Security Revalidation

Unique security revalidation is performed by the Air Staff for the SAF. This unique security revalidation includes verifying the following:

- Ownership of the utility system by a private utility or other entity would not impair the installation's mission.
- Ownership of the utility system by a private utility or other entity would not compromise classified operations or property.

Initiate Privatization Process

Utility systems that pass revalidation will continue through the following utilities privatization process:

- Phase I: Project Plan and Feasibility Analysis
- Phase II: Comprehensive Analysis
- Phase III: Final Feasibility, Approval, and Implementation

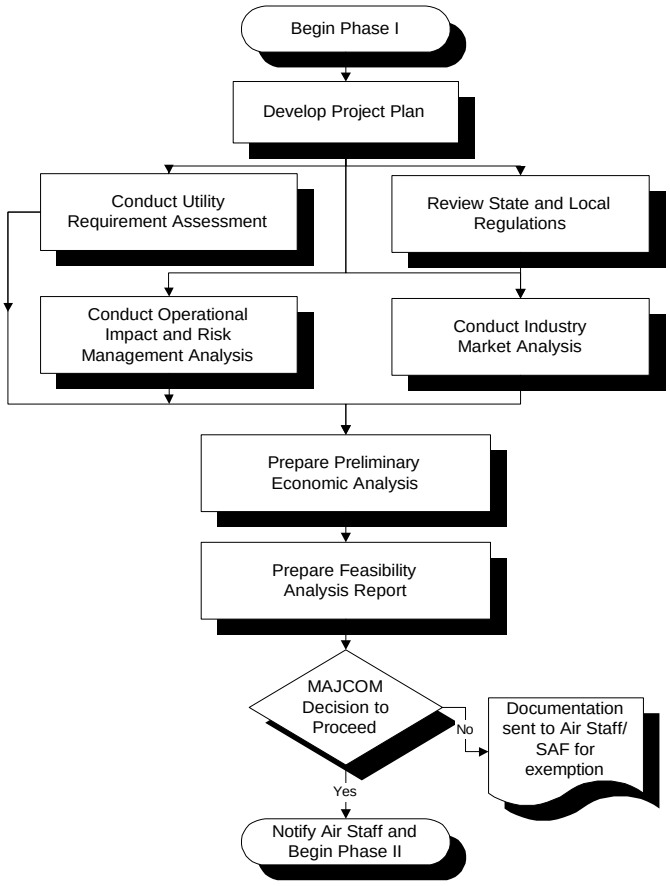
These three phases are the focus of the remainder of this policy and guidance.

Phase I: Project Plan and Feasibility Analysis

The lead for developing the project will be the Installation Civil Engineer.

This phase of the utilities privatization process is executed at the installation level, with or without contractor support. Typically, the lead for developing the project will fall to the Installation Civil Engineer under the guidance of the Installation / Wing Commander. Phase I is illustrated by **Figure 3.2**.

FIGURE 3.2
Phase I of the Utilities Privatization Process



Phase I is completed with a key decision point for the installation and MAJCOM. The objective of Phase I is to determine that privatization is both viable and economic and that an award will be made. If it is determined that, based on the Preliminary Economic Analysis described herein, the project should not proceed, rationale for this

finding must be provided via the MAJCOM and HQ USAF/ILEI to SAF/MII.

The following describes each major step in this initial phase of the utilities privatization process.

Project Plan

The Project Plan is the first step and describes the following:

The Project Plan is the first step.

- Project scope
- Installation utilities privatization team members and their responsibilities
- Communications plan with a list of points of contact
- Project schedule
- Additional resources, if required, to execute the project

The Project Plan provides for 360-degree communications.

Of key importance is establishing the installation utilities privatization team with representatives from real estate, cost and finance, community planning, legal, environmental, engineering, contracting, public affairs, and manpower. As part of project planning, it is essential to establish 360-degree communications. Contacts at the MAJCOM, HQ USAF/ILEI, HQ AFCESA, and HQ AFCEE should be established to coordinate project development and gain technical and resource assistance.

Communication with the affected employees and their labor union representatives should be established. The local community should also be apprised of the situation at the appropriate level. Typically, elected officials should be briefed on the prospect of utilities privatization, its purpose, potential benefits, and impact on their constituents. Regular contact with community leaders and employees will provide warning of potential concerns and instill trust. Be cautious, however, not to divulge information to local officials that also represent local publicly-owned utility concerns if that information would not also be available to other potentially interested parties. Local utility companies cannot be given an unfair advantage, even if only by advance notice, because they have special access to information through their local officials.

The format of the Project Plan is outlined in **Appendix E**.

Utility Requirement Assessment

The Utility Requirement Assessment is the basis for the privatization project.

The basis for the utilities privatization project is the utility requirement of the installation. Utility requirements must be assessed to ensure that they are addressed by the utilities privatization project. These requirements are assessed by quantifying the impact of planned construction and mission changes and adjusting the utility requirement appropriately. Provisions for some contingencies should also be included. Once the utility requirement is known, it should be used to determine whether adequate system capacity exists (including room for marginal load growth), excess capacity exists that might have some value to the competitors for the system, or the system can be abandoned and the service provided by existing utilities or other entities off base.

Operational Impact and Risk Management Analysis

The Operational Impact Analysis uses operational risk management processes.

The uncertainty associated with utilities privatization creates potential operational impacts or hazards to various Air Force missions. The principles outlined in Air Force Pamphlet (AFP) 91-215, Operational Risk Management Implementation and Execution, provide an effective mechanism to identify and choose the optimum course of action for implementing the utilities privatization initiative at both the programmatic and installation levels.

The Air Force Council Privatization IPT applied the operational risk management procedures to conduct a tabletop utilities privatization vulnerability assessment (A copy of this assessment is provided in **Appendix F)**. The IPT focused on five major vulnerability categories:

- Readiness
- Security
- Quality and availability
- Installation population
- Government liability

The IPT concluded that sufficient measures are in place to identify the hazards to mission operating capabilities. Additionally, the IPT found that appropriate policies are in place to eliminate unacceptable risk by exempting utility systems from privatization when readiness or "unique security reasons" require Air Force ownership.

However, to enhance the mitigation of other risk, the IPT recommended developing standard contract clauses to apply effective control measures and reduce the three components (probability, severity, or exposure) of risk.

The proper risk assessment during the planning stages allows the potential hazards to be identified, the risk assessed, and control measures analyzed.

The privatization process also requires a mission-specific Operational Impact Analysis prior to the privatization of any utility system. Risk management decisions made at the appropriate level establish clear accountability. Therefore, it is imperative that those accountable for the success or failure of the mission be included in the risk analysis. With the risk management practices discussed above in place at the programmatic level, the framework is established to apply the principles of operational risk management at the installation. The steps for implementing this evaluation are shown in **Appendix F**. Integrating the proper risk assessment during the planning stages allows the potential hazards to be identified, the risk assessed, and control measures analyzed. Decision-makers at the appropriate level should choose the appropriate controls based on the analysis of overall costs and benefits. When the costs outweigh the benefits, some risk may be accepted. Ultimately, the control measures implemented in the real estate instruments and utility service contract will be reflected in the contract cost and the determination of the privatization project's economic viability.

State and Local Regulatory Review

State and local regulation can limit competition.

This review determines whether the state's Public Utility Commission, State Corporation Commission, or similar regulatory body has jurisdiction over operating the utility system to be privatized. State law may, in fact, limit the operation of the utility to the regulated utility holding the franchise in the area or may subject the Air Force to agency established and published rates. Regulations will differ by the utility, state and local jurisdiction, or status of legislative jurisdiction for the installation. It is essential to determine what impact regulation will have on the privatization project so that the appropriate strategy can be formulated. Impacts could range from negotiating with the local utility as a sole source to allowing for full and open competition.

Industry Market Analysis

The Industry Market Analysis determines whether competition is likely.

To determine whether privatizing a particular utility system is feasible, it is necessary to determine if there are potential purchasers in the marketplace. The Industry Market Analysis determines whether there is likely to be competition for the purchase of the utility system. The Industry Market Analysis should proceed as follows:

1. Contact all local utilities in writing, describing the privatization project and asking for a letter response expressing their interest in proposing.
2. Contact other nationally known companies actively engaged in the provision of the utility commodity, describing the privatization project and asking for a letter response expressing their interest in proposing.
3. Publish a description of the project and formal Request for Interest (RFI) in the CBD.
4. Letters of interest alone may not constitute competition. Requests for non-binding business concept proposals from entities demonstrating interest may be warranted if they are deemed to be beneficial. Information requested in the non-binding proposal should include the proposed purchase price, proposed service rates, suggested approaches to renovating the system if required, the estimated cost of the renovation, and the cost to operate, maintain, and renew the existing or renovated system over time.

If the regulatory review demonstrates that competition is limited to sale to a single entity (usually the franchised service provider), no further Industry Market Analysis is required.

Preliminary Economic Analysis

The Preliminary Economic Analysis will compare status quo cost of owning and operating the system versus the privatization alternative.

The Preliminary Economic Analysis will compare status quo cost of owning and operating the system versus the privatization alternative. This requires developing cash-flow projections for both status quo and privatization and performing a life-cycle cost analysis on both alternatives.

Status Quo Cash-Flow

The components of the status quo cash-flow are defined by renewal and replacement costs, new construction costs, and adjusted current operating costs.

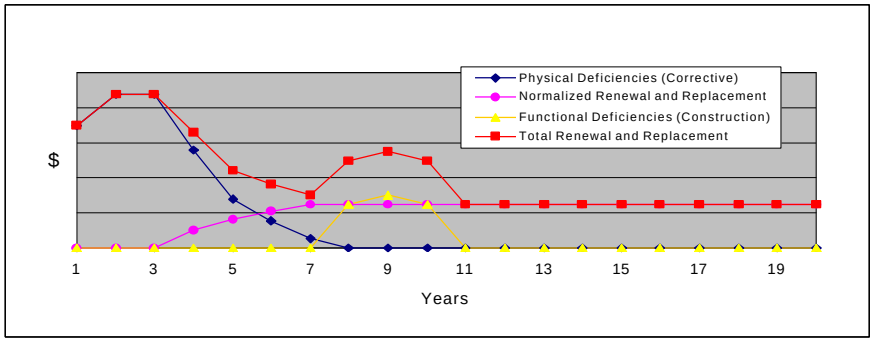
One component of the status quo cash-flow projections is determining capital renewal and replacement costs.

One component of the status quo cash-flow projections is determining capital renewal and replacement costs based on the value and age of the existing utility plant. This is accomplished by performing the following:

- Establish an inventory of the utility system
- Perform a facility condition assessment on the inventoried system to include a physical inventory review and spot check to confirm the system and its condition and maintenance and repair backlog; information should be developed so that a facility condition index can be ascribed to each system
- Establish a normalized annual cost for the renewal and replacement for the system

The renewal and replacement cost analysis should be as accurate as possible, however, some engineering judgment may be required. **Figure 3.3** shows the components of renewal and replacement cash flow.

FIGURE 3.3
Renewal and Replacement Costs Development



- **Inventory the utility system.** An inventory will establish a list of system assets and determine the cost to replace each asset. If a different configuration or technology would be used in the replacement, its cost, rather than that for exact replacement of existing facilities, should be estimated. The cost of replacing assets should be determined by using *Historical Air Force Construction Cost Handbook* supplemented by RS Means® cost-estimating publications. Life expectancy can be taken from manufacturers' literature or other life-cycle cost publications.

The facility condition assessment will identify the system's current physical deficiencies that must be corrected.

- **Facility condition assessment.** This assessment will identify the system's current physical deficiencies that must be corrected to bring the utility system to industry standards. Assessing the facility condition should be accomplished through conducting a visual inspection of major components, reviewing maintenance records, reviewing out-of-service records, and reviewing standard O&M procedures. The timeline for correcting the deficiencies– which will be determined for each specific utility, deficiency, and funding constraints– could range from two to seven years or more.

RCN is used to determine long-term system renewal costs.

- **Normalized annual renewal and replacement costs.** These costs can be determined for each component within the inventory or for systems composing one or more components provided a value and life expectancy can be determined. Through this analysis, the replacement cost new (RCN) value of the utility is determined and is used to parametrically determine the normalized long-term renewal and replacement costs. The normalized renewal and replacement costs should then be compared to analogous utility systems for validation and included in the cash-flow projections.

New Construction. Based on the results of the Utility Requirements Assessment and the regulatory review, the system's functional deficiencies that will require expansion for future loads or process enhancements to meet expected changes in regulatory permitting requirements should be identified. New construction costs to meet these requirements should be estimated based on the cost of similar construction and factored into the cash flow when the requirement must be in place.

Another major contributor to the cash-flow projection is costs associated with operating the utility.

Adjusted Current Operating Costs. Another major contributor to the cash-flow projection is costs associated with operating the utility. Operating costs include operations, maintenance, and general and administrative costs. Typically, these costs are not maintained in one set of books at the installation. It is, therefore, necessary to obtain the information through a detailed review of financial records kept at the installation and interviews with key personnel to verify cost data and to be sure that all costs are included in the overall estimated cost of service. Financial records on utility operating costs vary

from installation to installation. **Appendix G** includes a general approach for calculating the overall cost of service for any given utility and four case studies.

Adjusted current operating costs include operations, maintenance, and general and administrative costs.

Once the status quo costs are determined, adjustments may be required based on the results of the facility condition assessment, Utility Requirements Assessment, and the regulatory review.

Evaluating the cash-flow projection for O&M should also include reviewing the current O&M practices of the status quo to determine if the system is being adequately operated and maintained. This can be accomplished by comparing the current O&M practices to industry standards or manufacturer's recommendations for O&M. The status quo costs should be adjusted to account for under-funded or inadequate O&M procedures according to the following:

- Identify and quantify the deficiencies in the current status quo O&M.
- Develop a factor for increasing the status quo costs to account for proper O&M (e.g., if it were determined that 10 percent of the proper O&M procedures were not being followed, the factor would be 1.1).
- Multiply the current cash-flow projections for status quo O&M by the correction factor.

Privatization Cash-Flow Costs

Privatization cash-flow comprises the estimated purchase price and estimated service rates.

RCNLD will provide a basis for an estimated purchase price.

Ultimately, the fair market value of the utility system will be determined by SAF during Phase III of the privatization process. However, to perform the Preliminary Economic Analysis, an estimated value of the utility system is established and assumed to be the purchase price of the system. Using a similar methodology as that used for developing the renewal and replacement costs will provide an estimated purchase price. This similar method uses the RCN for the inventoried components and applies a factor for depreciation based on the age of each component. This method, commonly referred to as replacement cost new less depreciation (RCNLD), will provide a basis for an estimated purchase price. Unless another method for

estimating the purchase is identified through regulatory review, the RCNLD method should be used. The estimated purchase price is assumed to reflect the price a privatizing entity would pay the Air Force for the acquisition of the utility assets.

The estimated purchase price of a utility system is highly dependent on many other intangible factors (e.g., demand and location). The estimated purchase price should be adjusted, based on some engineering judgment, to account for these intangible factors. Establishing an estimated purchase price using the RCNLD method, even when adjusted for intangibles, is somewhat subjective. Thoroughly documenting the estimated purchase price development is very important and must be performed.

The estimated service rate includes only the costs associated with operating and maintaining the utility.

Information collected via the state and local regulatory reviews and the Industry Market Analysis should be used to help develop estimated service rates. These estimated service rates will be used to project a cash-flow for the privatization alternative. The estimated service rate includes only the costs associated with operating and maintaining the utility system and not the utility commodity itself. In general, the utility commodity cost will be procured directly by the Air Force separately. However, the analysis will look at potential impacts to commodity costs resulting from privatization and "unbundling" service to the installation. However, if the utility service is limited to a certain franchise holder or holders, and rates are regulated, then establishing estimated service rates equivalent to the regulated rates may be appropriate. If the utility service is not limited by franchise, then estimated service rates should be developed based on information obtained through the Industry Market Analysis and interviews with prospective offerors and local utilities. If the service is not limited by franchise and the utility service in the surrounding area is open to competition, information regarding expected service rates may not be easily obtained. Under this scenario, some investigative work may be required to establish reliable estimates for the service rates in a particular market. In these cases, developing an estimated rate may require engineering and economic judgment using the established operating costs and replacements values. Consult experts in the respective utility field for establishing estimated service rates.

The life-cycle cost analysis compares projected 25-year cash flows for the status quo and privatization alternatives.

Perform Life-Cycle Cost Analysis

The life-cycle cost analysis must conform to guidelines specified in OMB Circular A-94 and AFM 65-506. It should compare projected 25-year cash flows for the status quo and privatization alternatives using to the following steps:

1. Establish a cash-flow projection for maintaining the status quo alternative. This cash-flow projection incorporates costs associated with current operations, adjusted for underfunded or inadequate O&M, and renewal and replacement costs. The process for developing these costs was described above.

2. Establish a cash-flow projection for the assumed privatization alternative. This cash-flow projection incorporates costs associated with the sale of the utility system (estimated purchase price) and the purchase of utility service from the new owner (estimated service rates). The process for developing these costs was described above.

3. Conduct NPV analysis of the status quo and privatization alternatives to determine the least cost alternative.

A simplified example of the privatization economics analysis is provided in **Appendix H**.

Feasibility Analysis Report

Once all Phase I analyses and the Preliminary Economic Analysis are completed, the Feasibility Analysis Report is assembled and submitted to the MAJCOM and Air Staff. This report includes all analyses performed to demonstrate the economic viability of the project and recommends continuing on with Phase II of the project or eliminating the utility from further privatization considerations.

The Feasibility Analysis Report must contain all necessary information required to evaluate the viability of the project. The outline for the Feasibility Analysis Report is provided in **Appendix E**.

Review and "Go/No-Go" Decision

The final decision point in Phase I is whether to commit additional resources to further define the project and

develop the RFP. In order to proceed to Phase II, MAJCOM review of the project must be obtained, and a "go/no–go" decision must be made. Following that decision, the Air Staff is notified that the project is proceeding to Phase II or that privatization is not feasible.

Justification for terminating the process before competition will be approved by SAF/MII.

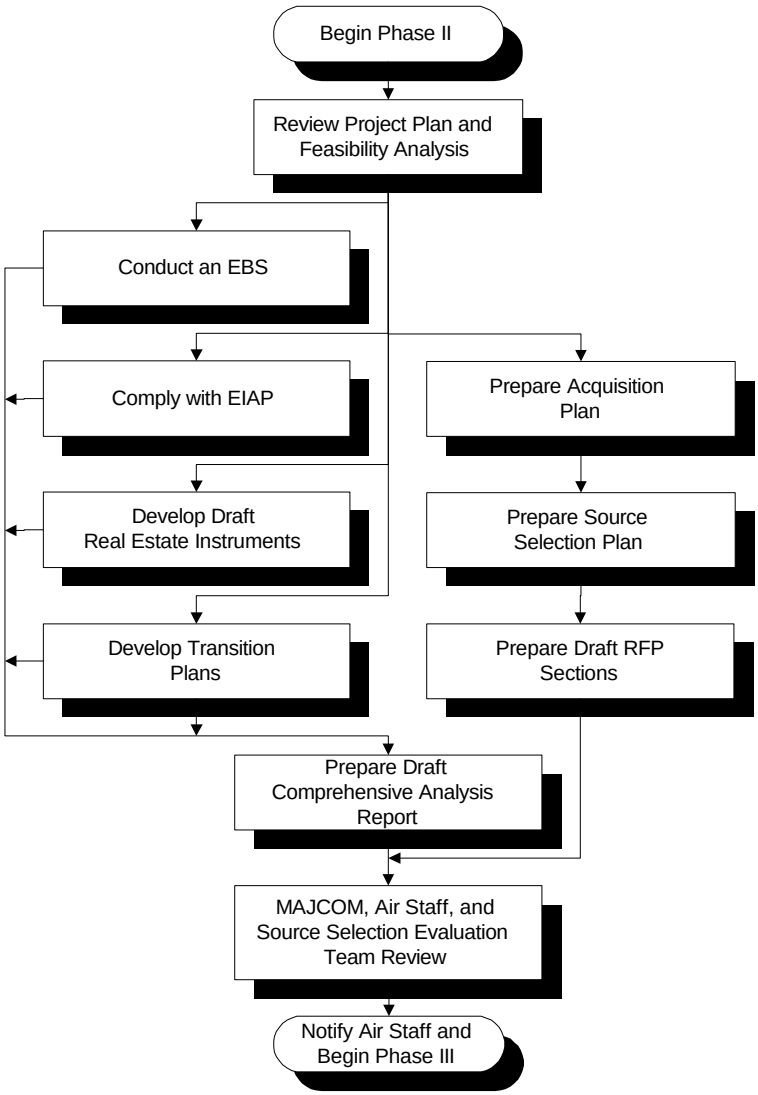
If the Operational Impact and Risk Management Analysis or Preliminary Economic Analysis appears to justify maintaining Air Force ownership and operation, the findings must be documented and presented to the Air Staff for review. If the Air Staff agrees with this recommendation, HQ USAF/ILEI will prepare an Approval Package for SAF/MII. If the Air Staff does not agree with this recommendation, the recommendation will be revised to proceed with Phase II of the privatization process.

Phase II: Comprehensive Analysis

Phase II leads to RFP development.

Once the preliminary feasibility of the project is confirmed, Phase II of the utilities privatization process begins. This phase of the process includes performing the required analyses and preparing the required environmental documents, preparing draft transition plans, preparing real property conveyance instruments, developing an Acquisition Plan, preparing an SSP, and drafting the RFP. Phase II is illustrated in **Figure 3.4**.

FIGURE 3.4
Phase II of the Utilities Privatization Process



Phase II is completed with a detailed review and approval of the Draft Comprehensive Analysis Report, including the draft transition plans, and the Draft RFP. The following describes each major step of Phase II.

Project Plan and Feasibility Analysis Report Review

Based on the findings during the Feasibility Analysis, the Project Plan should be reviewed to ensure budget, schedule, personnel, and points of contact are updated and appropriate.

Environmental Baseline Survey

An EBS may be necessary in the case of some utility system sales. The level of analysis will be determined on a case-by-case basis depending on the specific circumstances of the privatization action. Generally, a privatization action that only results in the sale of the system with an easement (i.e., no land is sold) will not require an EBS. Nevertheless, in some circumstances it may still be desirable to conduct an EBS to establish the condition of the land surrounding the utility system. This is most likely to occur in the case of the sale of a wastewater system.

Environmental Impact Analysis Process

Environmental analysis required to comply with the National Environmental Policy Act (NEPA) is performed in accordance with AFI 32-7061.

The EIAP is the Air Force process to meet NEPA requirements.

Privatizing utility systems should generally qualify for a categorical exclusion (CATEX). There will also be instances where a CATEX will not apply, in which case an environmental analysis or environmental impact statement (EIS) may be necessary. The detailed procedures for the EIAP are described in AFI 32-7061.

Draft Real Estate Instruments

Real estate instruments must be executed concurrently with the utility service contract.

The authority of 10 USC §2688 does not include the sale of land associated with the privatization of the utility system. The privatized utility system will be sold to a utility company or other entity. In either case, the Air Force will no longer own the system. Instead, there will typically be two documents that define the relationship with the new utility provider:

- Utility service contract resulting from the solicitation

- Real estate instruments that will include restrictions and covenants for use of the property conveyed

These documents must be executed concurrently. The following types of real estate instruments typically apply to this process:

- Easements for granting rights of access and use to on-base utility system components
- Licenses to grant temporary use of facilities as part of the transition

In addition, depending on the nature of the project, any combination of these instruments may be used to complete the privatization project on terms acceptable to the Air Force.

Restrictions embedded in real estate instruments serve to mitigate risk.

Real estate is a highly specialized field, and advice in this area should be sought from HQ AFREA. Preparing draft real estate instruments at this stage in the process identifies restrictions or other provisions that should be included in the RFP to mitigate identified risks of privatization.

Draft Transition Plans

The following are three key transition plans that should be developed during Phase II so that their requirements can be reflected in the RFP:

The Air Force will support its employees through the transition process.

- **Employee Transition Plan.** Planning to mitigate the impact of privatization on the lives of Air Force employees is Air Force policy, and it will significantly increase the prospects for project success. The manpower representative on the project team should determine the potential impact on employees and provide detailed guidance on reduction-in-force procedures if necessary. This information will provide the basis for an Employee Transition Plan. The plan should include the following activities:
  - Coordinating with the unions representing affected employees as soon as any significant prospect of privatization is identified
  - Communicating the schedule and conditions for the potential transfer and transition assistance available to affected employees as early as possible in the process and continuously thereafter

- Submitting requests for separation incentive and early retirement authorizations
- Setting up out-placement and job transition assistance
- Explaining that OMB Circular A-76 does not apply to utilities privatization
- Addressing employee rights with regard to employment with the new owner

An Operational Transition Plan should be a required part of the offeror's technical proposal.

- **Operational Transition Plan**. Once the Air Force has determined which elements are essential, the RFP should require a contractor-developed Operational Transition Plan that addresses each element of operational transfer as part of the technical proposal. It is important that a cooperative spirit be demonstrated between the system's current and future owners and operators. A plan with well-communicated procedures and expectations will help ensure a smooth operational transition. The Operational Transition Plan should include the following activities:
  - Scheduling transfer of system O&M, including a period of joint operation or on-site training for new employees and supervisors
  - Scheduling construction or installation of any connection requirements, such as meters, pipelines, feeders, switch gear, and transformers, and any associated outages
  - Transferring or modifying environmental permits, if appropriate (often takes six months or more)
  - Conducting joint inventories of personal property to be transferred, such as special tools, equipment, and spare parts
  - Providing operations manuals and maintenance records
  - Recording initial meter readings for billing purposes

The Post-Award Management Plan falls under the authority of the Contracting Officer.

- **Post-Award Project Management Plan.** Most of this work will fall under the authority of the Contracting Officer as part of the acquisition strategy, but it should include establishing a Post-Award Project Management Team, which will be responsible for the following:
  - Providing quality assurance/quality control (QA/QC)
  - Serving as a customer relations liaison
  - Assessing contractor performance annually or more frequently if required by the contract
  - Verifying services received
  - Processing payments
  - Determining when the contract requirements are met for the purpose of financial close-out

Note that under privatization, plant ownership may be transferred to the successful offeror who may or may not be regulated. Any terms and conditions ensuring that the Air Force's interests are protected must be included in the real estate instruments or in the contract that provides the conditions of purchase of the utility. The Post-Award Project Management Plan must ensure that contract conditions are met.

Acquisition Plan

The acquisition strategy for utilities privatization should be a best-value source selection made in accordance with AFFARS, Appendix BB.

The Installation Contracting Officer is responsible for developing the contract vehicle, which will procure utility services after privatization, and establish the long-term relationship of the utility provider so that potential privatization concerns can be mitigated.

The following briefly outlines the acquisition strategy for the benefit of the utilities privatization process participants who may be unfamiliar with it.

The privatization acquisition strategy should be a best-value source selection made in accordance with Air Force Federal Acquisition Regulation Supplement (AFFARS), Appendix BB, from proposals that first demonstrate economic savings to the Air Force in their respective proposals. This meets the requirements of 10 USC §2688 for lower long-term costs. The acquisition strategy will also include an indefinite-term utility contract form in

compliance with Defense Federal Acquisition Regulation Supplement (DFARS), §241.205. The Contracting Officer must prepare an Acquisition Plan that describes the acquisition strategy.

The Acquisition Plan should be developed in accordance with FAR Part 7.105.

The Acquisition Plan should be developed in accordance with FAR Part 7.105, Acquisition Planning. Considering all aspects of the planning and acquisition process, the Acquisition Plan should address the following:

- **Statement of Need**. Present a statement of need that summarizes the purpose for the acquisition and feasible alternatives to the acquisition.
- **Applicable Conditions.** State the requirements for compatibility with existing and future programs, discuss method of conveyance for real property, and discuss applicable requirements that should be reflected in the real estate instruments.
- **Cost.** State the cost goals of the acquisition, discuss how life-cycle cost will be considered, and discuss how should-cost figures into the acquisition.
- **Performance.** State the performance objectives of the acquisition, and discuss how privatization will affect utility service performance to the end users.
- **Contract Type**. State the contracting type (indefinite-term utility services contract) and method that will be used and how goals and objectives of privatization will be achieved.
- **Risks.** Discuss technical, cost, and schedule risks that are involved with privatization, and describe what efforts will mitigate the risk.
- **Competition.** Discuss how competition will be sought, promoted, and sustained throughout the acquisition process, and discuss incentives and disincentives that should be considered for the RFP.
- **Logistics Considerations.** Discuss the reliability, maintainability, and QA issues that will be required by the RFP. A Post-Award Management Plan should be required to address these issues as part of the RFP.
- **Milestones.** Present the acquisition strategy and steps to achieving contract award.

The Final Acquisition Plan will be a comprehensive plan that fulfills the Air Force needs in a timely and cost-effective manner and contains the overall strategy for managing the acquisition process. The overall strategy presented in the Acquisition Plan will precipitate the individual requirements in the RFP. If an issue is important, identify it in the Acquisition Plan and RFP and require that it be specifically addressed in the technical proposal prepared by the offeror.

Source Selection Plan

The SSP is a key document in conducting source selection.

An SSP is required in AFFARS, Part BB-204. The SSP, a key document in conducting source selection, should be jointly developed by contracting personnel and personnel responsible for the requirement. For privatization projects, the SSA resides with the SAF.

The SSP must be submitted sufficiently in advance of the planned acquisition to facilitate review and approval by the SSA and establishment of the source selection organization. Any revisions to the SSP must be submitted for review and approval by the SSA.

The SSP should contain the following:

- **Introduction.** This briefly describes what is being acquired and the goals and objectives of the acquisition.
- **Source Selection Organization.** This section describes the SSA and SSET organizations (including Government and non-Government advisors). Key members must be identified by name, organization, and position title. Use of non-Government advisors shall conform to FAR 15.305(c) and AFFARS, Part BB-108.
- **Proposed Pre-Solicitation Activities.** This section describes the Utilities Market Survey and how it was used to develop competition. It describes the steps that will be used to qualify offerors.
- **Evaluation Procedures**. This section describes the process that will be used by the SSET to evaluate offerors proposals. This discussion should center on developing status quo costs and the economic analysis process.

Evaluation criteria should be exactly duplicated in Section M of the RFP.

- **Evaluation Criteria**. This section should describe the cost criterion and specific criteria, including factors and, when appropriate, subfactors, and elements. This information should be exactly duplicated in Section M of the RFP. This section should also describe the assessment criteria and how they apply to the evaluation. The relative importance of the cost criterion, specific criteria, and general considerations must be stated. Assessment criteria must also be ranked relative order of importance or identified as of equal importance. Finally, this section describes general considerations and how they relate to the evaluation of the offeror's proposal.
- **Acquisition Strategy**. The SSP summarizes the Acquisition Plan, including the contract type proposed, incentives, disincentives, special contract clauses, and other elements reflective of the Acquisition Plan.
- **Schedule of events.** This schedule identifies and establishes the schedule for significant source selection activities in sufficient detail to allow the reviewing authorities to assess the practicality of the schedule. AFFARS, Attachment BB-2 provides guidance on source selection events.

Draft Request for Proposal

Direction and guidance on preparing the RFP is the responsibility of the Contracting Officer.

The RFP development process is extremely complex and structured. Direction and guidance on preparing the RFP is the responsibility of the Contracting Officer and his/her staff of acquisition professionals. The Final RFP will generally follow the Uniform Contract Format (FAR 14.201-2) and will contain the following:

- Part I: The Schedule
  - Section A: Solicitation/Contract Forms
  - Section B: Supplies or Services and Prices/Costs
  - Section C: Description/Specifications/Work Statement
  - Section D: Packaging and Marketing
  - Section E: Inspection and Acceptance
  - Section F: Deliveries or Performance
  - Section G: Contract Administration Data
  - Section H: Special Contract Requirements
  - Part II: Contract Clauses

- Section I: Contract Clauses

- Part III: Documents, Exhibits, and Other Attachments
  - Section J: List of Attachments

- Part IV: Representations and Instructions
  - Section K: Representation, Certifications, and Other Statements of Offerors
  - Section L: Instructions, Conditions, and Notices to Offerors
  - Section M: Evaluation Factors for Award

Developing the RFP and associated evaluation criteria typically requires involvement with technical experts.

Developing the RFP and associated evaluation criteria typically requires involvement with technical experts. The Contracting Officer will select the proper contract form and standard contract clauses to achieve the desired result. Note that the RFP will result in executing the appropriate real estate instruments and a contract for the provision of utility services by the successful offeror. The Air Force's relationship with the new owner of the utility system will depend on the provisions of the real estate instrument executed and the utility service contract, which must provide certain protections for the Air Force and the new owner.

The acquisition strategy must follow the requirements of AFFARS, Appendix BB and by reference the FAR and DFARS. Preparing the Draft RFP is the responsibility of the Contracting Officer. However, the following sections of the Uniform Contract Format should be prepared by, or include input from, technical staff members of the privatization team in support of the RFP preparation.

Section B: Supplies or Services and Prices

Section B of the RFP should briefly describe the services being acquired. Section B should also clearly define how the offeror is to prepare and present the financial portion of the proposal (e.g., unit rate, monthly fixed and variable charges for the utility service). Section B should include technical input based on the Industry Market Analysis, competition, and economics and reflect the overall Acquisition Plan.

Section B must be included in the Draft RFP to allow the MAJCOM, Air Staff, and SSET sufficient detail to evaluate the financial aspects of the proposal.

Section C: Descriptions, Specifications, and Work Statement

Section C will define the work to be performed by the new service provider for the foreseeable future.

Section C will define the work to be performed by the new service provider for the foreseeable future. It must reflect the project goal and define the quality of service required.

Any requirements that the Air Force desires in the final arrangement with the new owner of the system should be described in this section so that they can be addressed in the proposal and evaluated as part of the selection process. These requirements will typically be performance-based rather than prescriptive by nature. The following are some key factors to be considered in preparing Section C:

- Discuss the scope and purpose of the solicitation.
- Describe briefly the policies driving privatization.
- Discuss the current service agreement and provide current and projected future utility service requirements (e.g., thousand gallons [KGAL] of potable water and megawatt hours [MWH] of electricity).
- Describe the required schedule for beginning service following award.
- Describe the requirements for access to the installation (real estate instruments, routine access, controlled and restricted access, and noninterruption of installation operations).
- Describe the requirements for utility system management (relationship with the public utility commissions, service requirements, use of facilities, and service area).
- Describe in detail the utility system assets, including all equipment, tools, facilities, systems, and land, if applicable.
- Discuss allowances, if any, to adjust proposal pricing based on a comprehensive system evaluation by the successful offeror following award.
- Describe the requirements for staffing and shift coverages.
- Describe the requirements for cost accounting.

- Describe the requirements for O&M, including submitting the following plans and standards:

-- Annual Work Plan
  -- Quality Management Plan
  -- Environmental Health and Safety Plan
  -- Operation and Maintenance Management Plan
  -- Employee Transition Plan
  -- Operational Transition Plan
  -- Other plans, as required

- Discuss the requirements for quality of service.
- Discuss the requirements for environmental compliance.

Section C of the RFP must be included in the Draft RFP to provide the MAJCOM, Air Staff, and SSET with sufficient detail to evaluate the acquisition process.

Section G: Contract Administration Data

Section G should clearly describe the basis for rates and charges under the resulting utilities service contract.

Under a privatization solicitation, Section G should clearly describe the basis for rates and charges under the resulting utilities service contract. Aside from developing rates and charges, Section G should also establish the protocol for rate changes, metering and payment, and termination liability.

Section G should be included in the Draft RFP presented for review. The information included in this section is critical to the review process by the MAJCOM, Air Staff, and SSET.

Section H: Special Contract Requirements

Section H is reserved for special contract clauses that are not included as part of, or modifications to, the standard contract clauses of Section I. Section H may be included as part of the Draft RFP if the special contract clauses have potential impact on the decision to proceed.

Section J: List of Attachments

Section J of the RFP is reserved for attaching information pertaining to the utility system, regulations, equipment lists, or other information that may aide the offeror in preparing the proposal. Attachments should be listed by title, date, and number of pages. Section J may or may not be required as part of the Draft RFP review.

Section L: Instructions, Conditions, and Notices to Offerors

Section L of the RFP should instruct offerors how to structure their proposals.

Section L of the RFP should instruct offerors how to structure their proposals. This includes guidance concerning the type and content of volumes required, cross-referencing RFP and proposal paragraphs requirements, page limitations, and what is included in that page limitation, and the suggested level of detail to be provided.

Specific to a privatization solicitation, the offeror should be informed of financial stability requirements, past experience and performance requirements, past health and safety performance, and the process and basis for qualifying offerors. Also, the time and place for submitting proposals must be included in Section L.

Section L must be included in the Draft RFP review by the MAJCOM, Air Staff, and SSET.

Section M: Evaluation Factors for Award

Section M summarizes the requirements for evaluation factors as defined by AFFARS, Appendix BB, which should be strictly adhered to when preparing evaluation factors.

The basis for any source selection and award of a contract must be limited to factors, subfactors, and considerations that are stated in the solicitations.

The basis for any source selection and award of a contract must be limited to factors, subfactors, and considerations that are stated in the solicitations. All subfactors in Air Force source selections are significant as defined in FAR 15.304. Therefore, it is mandatory that the RFP clearly state all factors and subfactors that will be considered by the Air Force in making the source selection.

Air Force source selection awards are based on an integrated assessment of each offeror's proposal using factors and subfactors, which include the following:

- Cost (price) criterion
- Specific criteria
- Assessment criteria
- Proposal risk
- Performance risk
- General considerations

These factors and subfactors are stated in a structured manner in Section M of the RFP, which serves as the "rules of engagement" for the source selection.

Evaluation factors and subfactors should be tailored to the characteristics of a requirement and should include only those significant aspects expected to impact the ultimate selection decision. There must be a sufficient number of discriminators to effectively evaluate the offeror's proposal. The number of factors and subfactors are driven by the requirement. Care should be taken to ensure that arbitrary decisions are not made as to how many factors and subfactors should be established for a procurement of a given estimated value or given technical application. Evaluation factors consist of three types:

There must be a sufficient number of discriminators to effectively evaluate the offeror's proposal and ability to perform.

- **Cost (price) criterion.** Cost (price) criterion is a mandatory evaluation criterion that shall be evaluated as a factor in every AFFARS, Appendix BB source selection to determine realism, completeness, and reasonableness. The purpose is to ensure that the offeror has appropriately considered all aspects of cost (price) criterion.
- **Specific criteria.** Specific criteria relate to requirement characteristics, that is, to what the offeror has proposed to do. The specific criteria are typically divided into technical and/or management evaluation areas.
- **Assessment criteria.** Assessment criteria form the basis for evaluating each offeror's proposal in regards to the relevant evaluation criteria. They relate to how the offeror will perform the effort or satisfy the requirement.

The technical and contract team members should work together to develop a list of the key characteristics that distinguish "poor" from "good" performance of a given requirement. Each factor and subfactor will also be evaluated for proposal risk. Proposal risk is the risk associated with the offeror's approach to accomplishing the RFP requirements and each factor and subfactor specifically.

Performance risk can be assessed for individual factors, but is generally assessed for the proposal as a whole. It is based on the offeror's present and past work record and represents the confidence the evaluators have in the

offeror's ability to successfully perform as proposed. Performance risk is conceptually weighted equally with factor assessments and proposal risk.

Section M is critical and must be included in the Draft RFP submitted for review by the MAJCOM, Air Staff, and SSET.

Draft Comprehensive Analysis Report

At this point, the Draft Comprehensive Analysis Report should be prepared. The Draft Comprehensive Analysis Report should contain all data and analyses performed during the Phase II process and summarize the Phase I process. An outline of the Comprehensive Analysis Report is provided in **Appendix E**.

Presentation and Approval

SAF/MII will approve issuance of the RFP.

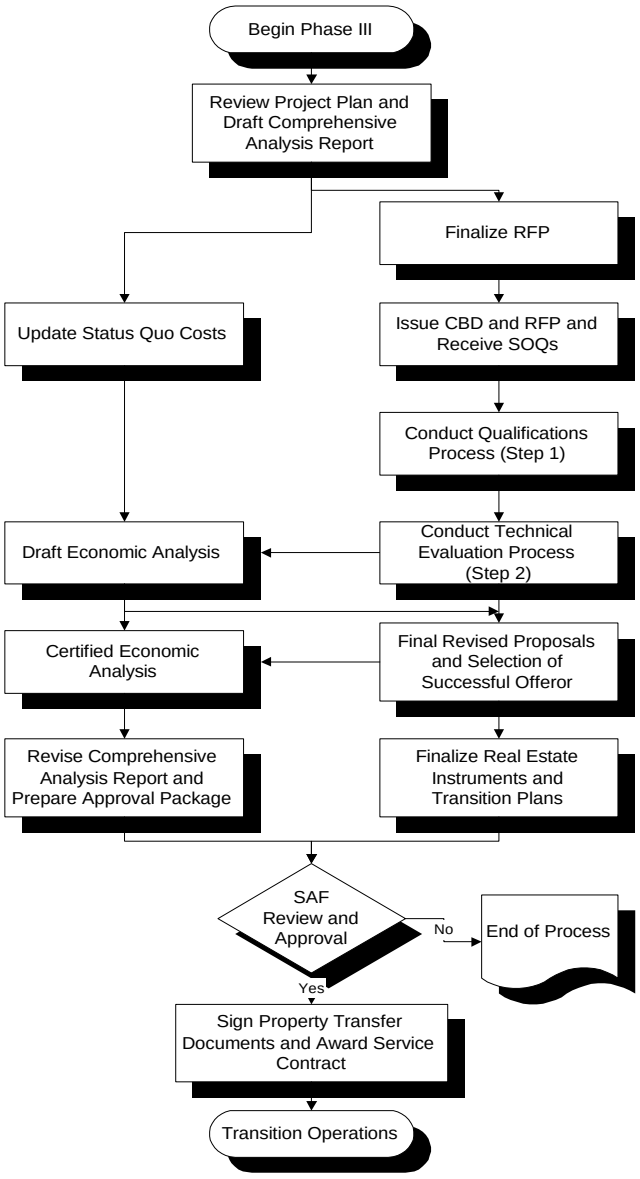
Once the Draft RFP and Draft Comprehensive Analysis Report are approved by the installation, MAJCOM, Air Staff, and SAF, SAF/MII will decide to proceed and appoint the SSA.

Phase III: Final Feasibility, Approval, and Implementation

Phase III is focused on the acquisition process.

This last phase of the utilities privatization process is focused on completing the acquisition, assessing the value of the contractor proposals, gaining Air Staff and SAF/MII approval, notifying Congress, awarding the project, and implementing the transition. Phase III is depicted in **Figure 3.5**.

FIGURE 3.5
Phase III of the Utilities Privatization Process



Final feasibility of the project will depend on the proposals received.

The proposals received will determine the final feasibility of the project. It is critical to ensure before the award is made that the Air Force will benefit. This requires a Certified Economic Analysis, approval of the proposed action by SAF/MII, and notification to Congress. During Phase III, the final decision regarding awarding the contract and transferring the utility system is made. Phase III also includes finalizing the Post-Award Transition Plan to properly place the privatized utility in commission. The major steps of Phase III are discussed below.

Reviewing Project Plan and Comprehensive Analysis

Based on the findings of the Comprehensive Analysis, a cursory review of the Project Plan should be conducted to ensure budget, schedule, personnel, and points of contact are updated and appropriate.

Finalizing the RFP

After the Draft RFP is approved, any comments (internal or through industry reviews) are incorporated into the appropriate sections of the RFP, and all sections to be included in the Final RFP are completed.

Make all available technical information available to offerors.

It will be beneficial to provide site tours and open a technical library related to the utility system so that available information is provided to all interested parties as early in the privatization process as possible. If a technical library is not established before the RFP is issued, it should be immediately afterward. This will allow offerors the maximum time possible to develop their proposals. Sufficient time should be permitted in the RFP for the offerors to conduct the level of due diligence both parties would want before entering into a permanent relationship. Advanced RFIs in the privatization process along with access to technical information in a central library can help accelerate the time from RFP to proposal.

The Air Force Contracting Officer is responsible for the final assembly of the RFP, which will include all sections of the RFP. The Final RFP will be prepared in accordance with AFFARS, Appendix BB.

Preparing and Issuing the *Commerce Business Daily* Announcement

The goal of the acquisition process is maximum competition.

A principal goal of this activity is generating the maximum competition among qualified entities, including utilities and other service providers. This is accomplished by announcing the solicitation in the CBD, national newspapers, and trade journals to get as broad a dissemination as possible. The CBD announcement should describe the project and qualification process that will be implemented. The announcement should provide logistic information regarding when, where, and how to request the RFP.

Issuing the Request for Proposal and Site Tour

The site tour is a critical step in helping the offerors prepare their proposals.

The entire RFP is issued to all entities responding to the CBD announcement. Additional RFPs will also be issued subsequent to the initial issuance upon request by an entity to the Contracting Officer. Within two weeks of issuing the RFP, the Contracting Officer should conduct a site tour to potential offerors. This site tour is a critical step in preparing the offerors' proposals. The site tour should provide insight into the physical condition of the system, O&M practices, and overall effectiveness of the system to provide quality service to the Air Force. The Installation Civil Engineer should attend the site tour to provide technical information about the system and answer questions related to its operation and condition. Following the site tour, a timeframe is established in which prospective offerors are allowed to submit questions in writing. Air Force responses to the questions must be provided to all participants involved in the procurement. If warranted, the Contracting Officer will prepare and issue responses as amendments to the RFP.

Conducting Qualification Process: Step 1

Typically, all offerors will be determined to be either unconditionally qualified or conditionally qualified.

Step 1, the Qualification Process, includes receiving Statements of Qualifications (SOQs) from potential offerors, evaluating SOQs, and notifying offerors of their qualification status. The purpose of this initial step is to notify potential offerors of their qualifications, based on established evaluation criteria, so that the offeror can determine if they should incur the expense of preparing the technical proposal. Typically, all offerors will be determined to be either unconditionally qualified or conditionally qualified. Conditional qualification means

that the offeror has not demonstrated sufficient technical organization or financial capabilities to perform all aspects of the project.

Although this process is intended to establish a "short list" of qualified entities, it should not be used to deny a proposal from being submitted. That is, all technical proposals received will be evaluated. This ensures open and fair competition and mitigates the likelihood of protests. Also, if an entity not evaluated during the qualification process expresses interest subsequent to the Step 1, they should be provided an RFP upon request. This process will also ensure open and fair competition and reduce the risk that the project will be delayed by protest.

Conducting the Technical Evaluation Process: Step 2

Select the proposal that meets the criteria of 10 USC §2688 and the economic criteria that offers the best value to the Air Force.

The Technical Evaluation Process begins with a request for, and acceptance of, separate technical and cost proposals from qualified offerors. During this step, the Government will accept proposals up to the stipulated time and date, evaluate the technical proposals, hold discussions with offerors, secure final revised proposals, and select the proposal that meets the criteria of 10 USC §2688 and the economic criteria that offers the best value to the Air Force.

Receiving and Evaluating Proposals

Proposals will only be accepted up to the time indicated by the instructions to offerors (Section L) or subsequent change through an amendment issued by the Contracting Officer. Once the Contracting Officer receives the proposals and has determined they meet the submission requirements, the SSET is provided the technical and cost portions of the proposals to evaluate against the evaluation criteria (Section M).

The SSET evaluates the proposals to qualify the offerors in terms of providing quality service to the Air Force. This evaluation must be non-subjective and solely based on the evaluation criteria. Subjective evaluation could lead to protest following the award of the project. AFFARS, Appendix BB provides guidance on performing technical evaluations of proposals and determining the competitive range. The SSET will also develop a life-cycle cost analysis

model to be used on each proposal. Life-cycle cost analysis will be based on the offerors proposal and updated status quo costs discussed below. This model analysis will identify proposals offering cost savings and support holding discussions with offerors.

Holding Discussions and Making Requests for Final Revised Proposal

Once the SSET has determined, based on evaluation criteria, a list of qualified offerors in the competitive range, the Contracting Officer may initiate discussions with those entities in accordance with AFFARS, Appendix BB to resolve any questions or deficiencies. These discussions should lead to preparing and submitting final revised proposals.

Reviewing the Final Revised Proposal and Initiating the Selection Process

After receiving the final revised proposals by the offerors, the SSET evaluates the proposals to determine which proposals offer the "best value" (quality and cost trade-off).

The terms of these final revised proposals will be input into the economic model used in the Economic Analysis to compare the Air Force's costs. This information will be used in the overall source selection process to select a provider. AFFARS, Appendix BB describes the process for documenting the evaluation process of the final revised proposals.

Updating Status Quo Costs

The status quo costs developed during Phase I of the utilities privatization process should be reevaluated to determine their appropriateness based on any new data obtained since they were first established. This is necessary to ensure that the most current status quo costs are evaluated against the offerors' proposals. The same process as that used during Phase I should be used to revalidate or update status quo costs.

A Draft Economic Analysis will be performed based on the selected industry proposals to determine if privatization is economical.

Preparing a Draft Economic Analysis

Once the SSET has selected the best-value proposal, a Draft Economic Analysis must be conducted to assure that the privatization alternative will result in long-term costs that are equal to or better than the status quo. This Economic Analysis must conform to guidelines specified in OMB Circular A-94 and AFM 65-506. It should compare projected 25-year cash flows according to the following:

- Quantify and forecast the full cost of service for the status quo alternative
- Quantify the cost of service from received proposals for the privatization alternative
- SAF/MII determines of the fair market value
- Conduct life-cycle cost analysis

Each of these steps is described below. Benefits as defined by AFM 65-506 should not be scored. Instead, a qualitative analysis of benefits should be documented by the SSET,

Quantify and Forecast the Full Cost of Service for the Status Quo Alternative

The updated status quo costs, established earlier in Phase III, are used to develop a cash-flow projection for keeping the service in-house to the Air Force. This status quo cash-flow projection should account for all O&M costs (adjusted as appropriate), renewal and replacement costs, known MILCON construction required for increased utility requirements, and known upgrades required to maintain compliance with state and/or local regulations. The cash-flow projection should be developed in the same manner as was used during the Preliminary Economic Analysis of Phase I.

Privatization cost will be determined from actual proposals.

Quantify the Cost of Service from Received Proposals for the Privatization Alternative

Proposals will be evaluated in terms of purchase price and service fees. Those proposals that contain terms that are obviously not competitive will be eliminated from further consideration. For those proposals that remain, projected cash flows will be prepared based on the proposed acquisition price and service fees. This projection should be based on the utility requirements identified in Phase I and refined in Phase II.

Cash-flow projection for the privatization alternative is determined from data contained in Section B of the offerors' proposal.

Fair market value will be approved by SAF.

SAF/MII Establish Fair Market Value

The fair market value of the utility system will be approved by the SAF/MII.

Conduct Life-Cycle Cost Analysis

AFM 65-506 is the guide for life-cycle cost analysis.

Life-cycle cost analysis associated with the status quo and privatization alternatives for which detailed cash flows were developed must be performed in a manner consistent with guidelines included in AFM 65-506.

As described above, the Draft Economic Analysis should be prepared according to the guidelines included in AFM 65-506. This report will document the life-cycle cost and the benefits associated with the status quo and with privatization.

The draft should be submitted to the base Financial Manager (FM) and the MAJCOM for review. It should also be submitted to the SSA tasked with contractor selection and contract negotiations.

Preparing Certified Economic Analysis

The Certified Economic Analysis will be based on the successful final revised proposal.

Review comments on the Draft Economic Analysis should be provided within three weeks once the draft is submitted. The Final Economic Analysis must be prepared based on the review comments, the final revised proposals, and, if a contract has successfully been negotiated, the final terms and conditions in the contract. This version of the Economic Analysis must be submitted for certification and, once certified, included in the package sent for the approval process.

Finalizing Transition Plans

Based on the final revised proposals, the transition plans can be updated to reflect the selected offerors approach to transition. The final transition plans will be the tool used to control and guide the transition of operations smoothly.

Finalizing Real Estate Instruments

Except at installations affected by the Base Realignment and Closure (BRAC), transferring privatized utility systems will be pursued under 10 USC §2688. Under this

law, no land will be conveyed, and the utility system will be transferred under a bill of sale. The installation is responsible for developing the easements, licenses, and the bill of sale required to execute the privatization project.

Restrictions will protect Air Force interests reflected in the real estate instruments.

Regardless of the form of conveyance, there will be restrictions in the real estate instruments to protect the Air Force.

Preparing the Final Comprehensive Analysis Report

Once the selection is made, the conditions and economics of the project have been reevaluated in light of the final revised proposals to confirm benefit to the Air Force, the project must be submitted to the Air Staff and SAF/MII for approval and Congressional notification. The Final Comprehensive Analysis Report will be prepared and describe all the processes used and will include all the data obtained or derived during Phase III. The Final Comprehensive Analysis Report should summarize the Feasibility Analysis Report from Phase I. The outline for the Comprehensive Analysis Report is provided in **Appendix E**.

Preparing the Approval Package

The Approval Package summarizes all data for submission to SAF/MII.

The Comprehensive Analysis Report must be summarized in a Project Summary Report to be included in an Approval Package. An outline of the Project Summary Report is provided in **Appendix E**. The Project Summary Report and Certified Economic Analysis are included in an Approval Package for formal submission to SAF/MII.

Awarding the Service Contract and Signing the Property Transfer Documents

Following SAF/MII approval of the project, SAF/MII will coordinate Congressional notification. After awarding the service contract, the documents (e.g., bill of sale and easements) are signed transferring property to the new provider of the service. Signature authority of the real estate instruments may or may not be delegated at the discretion of SAF/MII. AFFARS, Appendix BB defines the completion of the acquisition process.

Execute transition and post-award project management.

Implementing Transition

Having planned the operational transfer of the system and the transition of the affected civil service employees, and having included these requirements in the contract, close coordination with the new owner will be necessary for the project to be successfully implemented. The Post-Award Project Management Team and QA/QC organizations will be put in place to evaluate performance, confirm compliance with real estate restrictions, and assure that services are delivered in accordance with the contract. When transition is complete and real estate instruments are executed, the installation will be left with a long-term utility service contract to administer. This contract, which is the vehicle for obtaining quality service, will be monitored by the Post-Award Contract Management Team, just as utility contracts are administered around the Air Force today.